

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION)	
OF INTER-JURISDICTIONAL ISSUES)	CASE NO. PAC-E-02-3
AFFECTING PACIFICORP DBA UTAH)	
POWER & LIGHT COMPANY)	ORDER NO. 29708
)	

On March 5, 2002, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) petitioned the Idaho Public Utilities Commission (Commission) to initiate an investigation of inter-jurisdictional issues affecting the Company as a consequence of its status as a multi-jurisdictional utility subject to the jurisdiction of six state regulatory Commissions.

As a result of different cost allocation methods adopted for ratemaking purposes in the Company's various states of operation, PacifiCorp maintains that it is no longer being provided the opportunity to fully recover its costs. By Order No. 28978, the Commission established a docket for investigation, established an intervention deadline and approved a joint Multi-State Process (MSP) for analyzing PacifiCorp inter-jurisdictional issues (*Idaho Code* § 61-505) and established initial MSP scheduling (*Idaho Code* § 61-501).

On September 30, 2003, PacifiCorp filed a Motion, direct testimony and exhibits seeking Commission ratification of an Inter-jurisdictional Cost Allocation Method – Protocol (Protocol). On July 14, 2004, PacifiCorp filed a Revised Protocol and Supplemental Testimony. On November 4, 2004, PacifiCorp and Commission Staff filed a Joint Motion requesting acceptance and Commission approval of a Stipulation and Agreement (Stipulation) negotiated by PacifiCorp, Staff, Monsanto Company, and AARP as full settlement of the inter-jurisdictional cost allocation issues affecting PacifiCorp. Reference IDAPA 31.01.01.272-276. The Commission in this Order approves the Revised Protocol and the negotiated terms of the settlement.

Inter-Jurisdictional Cost Allocation Method – Revised Protocol

The Revised Protocol (PacifiCorp Supplemental Testimony, Exhibits 19-25) is the culmination of an extended series of joint multi-state process (MSP) meetings, technical workshops and telephone conferences that analyzed PacifiCorp's inter-jurisdictional cost allocation issues. MSP meetings were attended by representatives of some 18 entities from the

states of Utah, Oregon, Wyoming, Washington and Idaho. Participants included representatives of state commission policy staffs, advocacy staffs, individual customers and consumer groups. The Company's filing in Idaho is identical to contemporaneous filings made with the regulatory commissions in Utah, Oregon and Wyoming. In Washington, PacifiCorp filed the Revised Protocol as part of the Company's rate case in that state.

The Revised Protocol filed by PacifiCorp is the Company's "MSP solution." The Revised Protocol describes how PacifiCorp's generation, transmission and distribution costs will be allocated or assigned to PacifiCorp's six retail jurisdictions. The Revised Protocol also describes mechanisms for ensuring continued dialogue among interested parties regarding PacifiCorp inter-jurisdictional cost allocation issues and procedures, and for resolving concerns and inconsistent policies that may arise among the Company's state jurisdictions in the future.

PacifiCorp anticipates that ratification of the Revised Protocol will resolve current differences among PacifiCorp's retail jurisdictions concerning needed new resources and cost allocation methods. PacifiCorp contends that ratification will provide the Company assurance that it will have a reasonable opportunity to recover prudent investments in new generation and transmission facilities and required improvements to existing facilities. This, in turn, it states, will ensure that the Company's customers continue to receive safe and reliable electricity service at reasonable prices.

Key elements of the Revised Protocol are: a hydro endowment reflecting the cost difference of hydro-electric resources and certain contracts attributed to the former Pacific Power and Light states; an assignment recognizing the cost difference of state-specific qualifying facilities; and an allocation for specific seasonal resources. All other resources will continue to be allocated based on the peak and energy requirements of each state on the integrated system.

In addition, the Revised Protocol addresses treatment of a number of items and potential situations including: (i) refunctionalization and allocation of transmission costs and revenues, (ii) treatment of the costs of special contracts, (iii) means of accounting for and accommodating state specific policies, such as direct access, and (iv) the process and infrastructure for resolving issues in order to further secure the sustainability of the allocation methodology in the future.

The Revised Protocol method is essentially a dynamic allocation method incorporating the majority of components of a Rolled-In methodology (all systemwide

allocations) with a few key exceptions: treatment of seasonal resources, treatment of Company-owned hydro resources, treatment of the Mid-Columbia hydro contracts, and treatment of Qualifying Facilities (QFs).

The classification of all resource fixed costs, wholesale contracts and short-term purchases and sales will continue to be classified as 75% demand-related and 25% energy-related. All non-firm purchases and sales will be classified as 100% energy-related.

The allocations of resources consist of four categories: (1) seasonal resources, (2) regional resources, (3) state resources and (4) system resources. Seasonal resources are defined as single cycle combustion turbines (SCCTs), seasonal contracts and the Cholla/APS exchange. The cost of seasonal resources primarily used during high load peak seasons will be more heavily allocated to the jurisdictions using the resource in those peak months by matching the seasonal generation patterns to the seasonal load patterns in each state.

Regional resources consist of Company-owned hydro and a portion of the Mid-Columbia contracts. These costs will be assigned and allocated using an embedded cost differential adjustment calculated as the difference between the cost per kilowatt-hour on hydroelectric resources and the cost per kilowatt-hour for other resources. The Hydro Endowment was designed to assign the majority of Company-owned hydro resources, originally owned primarily by the former Pacific Power and Light (PP&L) territory (i.e., Oregon, Washington, California and part of Wyoming), to those jurisdictions. The embedded cost differential adjustment adopted by the Revised Protocol is based upon full (i.e., fixed plus variable) costs, not just the fuel costs. This is different from the Modified Accord allocation approach (the previous consensus method adopted by various states) that utilized a fuel adjustment mechanism to allocate hydro resources to the PP&L states. Also, unlike Modified Accord, this "endowment" has no predetermined time frame and will continue beyond the time when hydro re-licensing costs exceed the fuel cost savings. For Mid-Columbia contracts, the embedded cost differential is allocated system-wide using factors that provide a larger share to Oregon and Washington than would otherwise be provided under system allocation factors.

State resources currently include demand side management (DSM) programs, state portfolio standards, and PURPA qualifying facility (QF) contracts. DSM costs will be assigned on a situs basis to the state where the investment is made. Benefits from these programs will accrue to the respective states in the form of reduced consumption and load based dynamic

allocation factors. Costs associated with resources acquired under a state portfolio standard that exceed the costs that otherwise would have been incurred by PacifiCorp will be assigned to the state adopting the standard. Existing QF contracts will be assigned using the embedded cost differential adjustment. The differential is the annual cost of existing QF contracts for each state less the annual embedded costs. The differential will be assigned on a situs basis with the remainder allocated on the system generation (SG) factor. New QF contracts will be treated like state portfolio standard resources with any excess costs assigned to the respective states.

System resources are all the remaining resources not categorized as seasonal, regional or state resources. The majority of all resources are system resources. Generally, all fixed costs associated with system resources will be allocated on the SG factor, variable costs will be allocated on the system energy (SE) factor, and any wholesale revenues will be allocated on the SG factor.

Costs associated with transmission assets, firm wheeling expenses and revenues will be classified as 75% demand-related and 25% energy-related. They will be allocated among the states based on the SE factor. This allocation is consistent with Rolled-In where all plant is allocated system wide but differs from Modified Accord where pre-merger plant is assigned divisionally and post-merger plant is allocated system wide.

Distribution related expenses and investments that can be directly assigned would be assigned to the state where they are located. Costs that cannot be directly assigned will be allocated among the states. The majority of all distribution costs will be directly assigned.

Special Contracts will be treated differently from the prior allocation method for Monsanto in Idaho where Monsanto was accounted for on a system basis. Appendix D of the Revised Protocol discusses Special Contracts in greater detail. Revenues associated with the Special Contract will be included in the state revenues and loads of the Special Contract customers and will be included in all load-based dynamic allocation factors to allocate costs. Any rate discounts allowed for Special Contract customer-provided ancillary services, including reserves provided by interruptibility, would be allocated to the system to match the system benefits received from the ancillary services.

Stipulation and Agreement – Proposed Settlement

On November 4, 2004, PacifiCorp and Commission Staff filed a Joint Motion requesting acceptance and Commission approval of a Stipulation and Agreement (Stipulation)

negotiated by PacifiCorp, Staff, Monsanto Company, and AARP as full settlement of the inter-jurisdictional cost allocation issues affecting PacifiCorp as a consequence of its status as a multi-jurisdictional utility subject to the jurisdiction of six state regulatory Commissions. The stipulating parties request Commission approval of the inter-jurisdictional cost allocation methods embodied in the Revised Protocol filed with the Commission on July 14, 2004, as a means of achieving consistent allocation methods in the jurisdictional states served by PacifiCorp.

Public workshops for PacifiCorp customers in eastern Idaho were held in Preston on October 4, 2004 and in Rexburg on October 5, 2004. At the workshops, Commission Staff presented a summary of the Company's Petition, MSP, Revised Protocol and discussed its participation in settlement negotiations.

Included in the Stipulation are rate mitigation measures intended to apply to calculations of the Company's Idaho revenue requirement for any PacifiCorp rate filing made through March 31, 2009. In the near term through 2008, the Revised Protocol methodology results in a 2% higher revenue requirement to Idaho than under Rolled-In, an alternate allocation methodology that Idaho Staff would favor in the absence of agreement to the Revised Protocol. The results to Idaho beyond 2008 are more favorable because future hydro relicensing costs will be assigned directly to the Pacific Power & Light states, primarily Washington and Oregon. In addition, Idaho customers will continue to benefit from the efficiencies of PacifiCorp's integrated six state system while PacifiCorp will be provided greater certainty for a recovery of its prudently incurred costs.

The stipulating parties agree that the Stipulation and rate mitigation mechanism is in the public interest and that all of the terms of the Stipulation are fair, just and reasonable. The parties recommend that the Commission approve use in Idaho by PacifiCorp of the Revised Protocol methodology and rate mitigation mechanism for purposes of inter-jurisdictional allocation of the Company's costs and Idaho results of operations in future regulatory proceedings.

On November 9, 2004, the Commission issued Notices of Stipulation and Agreement, Joint Motion for Acceptance of Settlement and Modified Procedure. The deadline for filing written comments for stipulating parties and parties of record was November 23, 2004. The

deadline for filing written comments or protests by the public was December 6, 2004. PacifiCorp and Commission Staff were the only parties to file comments.

PacifiCorp Comments

PacifiCorp urges the Commission to accept the Stipulation and ratify the Revised Protocol. The Company contends that the Stipulation is in the public interest and if ratified by all of PacifiCorp's State Commissions will establish uniform policies in respect to the following critical issues:

1. How the costs of new resources will be allocated among states;
2. How the costs of resources built to serve seasonal load will be allocated;
3. How the costs of QFs will be assigned;
4. How the consequences of direct access will be isolated to the state adopting the program;
5. How the costs and benefits of special contracts with large industrial customers will be allocated among states; and
6. How the Northwest states' claim to a special entitlement to hydroelectric resources will be recognized.

The Revised Protocol, PacifiCorp states, provides for the establishment of an "MSP Standing Committee" consisting of State commissioners or their delegates. The MSP Standing Committee will oversee continuing analytical efforts associated with inter-jurisdictional issues (such as the consequences of disproportionate load growth among States) and serve as a forum for the parties to discuss and hopefully resolve any emerging inter-jurisdictional issues. Meetings of the MSP Standing Committee, the Company states, are to be open to all interested parties. The Company expects that those meetings will assist in maintaining an ongoing consensus among the states in which it operates regarding inter-jurisdictional issues, thereby preserving the accomplishments of the MSP.

Addressing the observed consequence of the Revised Protocol that the Idaho revenue requirement is higher in the early years of its operation compared to the use of other allocation methods, the Company notes that the filed Stipulation includes a provision mitigating the expected near-term Idaho customer impacts. To that end, the Stipulation provides that until March 31, 2009, the Company's use of the Revised Protocol will not result in rates in Idaho that exceed 101.67 percent of the amount that would result from use of the Rolled-In method. As a result of the Stipulation, PacifiCorp contends that Idaho customers obtain the benefits arising

from the resolution of MSP issues, while being insulated from any major near-term rate impacts associated with it.

As an additional reason for approving the Stipulation, PacifiCorp notes that it was recognized by Idaho parties that circumstances might change such that it might not be sensible for them to continue to support the Revised Protocol. Accordingly, the Company notes that the Stipulation provides that if the results of using the Revised Protocol materially depart from PacifiCorp's current projections, or otherwise produce results that are not just, reasonable, and in the public interest, any party may propose amendments to the Revised Protocol or propose that the Commission depart from its terms.

Staff Comments

Revised Protocol Analysis

Commission Staff recommends adoption of the Revised Protocol allocation methodology and acceptance of the Stipulation terms as filed. Acceptance and adoption of both, Staff contends, resolves the inter-jurisdictional allocation issues. Such resolution, it states, is important to PacifiCorp and its customers. Customers will benefit by eliminating or at least reducing the potential for negative decision-making by the Company or negative impacts on PacifiCorp. Potential impacts of inconsistent allocation methodologies adopted in various states, Staff contends, could have included:

- Loss of PacifiCorp's financial integrity with associated cost of capital impacts;
- Loss of efficiencies or reliability if investments and operation and maintenance expenditures are reduced;
- Limitation of individual state's ability to implement policy goals;
- Potential loss of states' jurisdiction to Federal Energy Regulatory Commission (FERC) or the Securities Exchange Commission (SEC) for inter-jurisdictional allocation decisions;
- Potential reluctance to make generation plant capital investments but to instead rely on the spot market for power purchases;
- Proposed changes to PacifiCorp's structure that may have caused costs to be higher than they otherwise would have been;
- Ability for PacifiCorp, state regulators and parties in each state to focus on other important issues including but not limited to transmission issues, resource adequacy and service quality.

An issue that could be heard in a rate case under the Revised Protocol methodology, Staff notes, is the potential cost shifts to Idaho customers other than Monsanto when Monsanto rates are fixed during the contract period. If the cost studies utilized for any rate case and Monsanto's contract negotiations are the same, there will be no cost shift concerns. If the cost studies are not the same, any shortfall that would ordinarily be allocated to Monsanto but left uncovered by contract could become an issue. This shortfall due to the timing difference could be absorbed by PacifiCorp or requested for recovery from other customers in a subsequent rate case.

Any proposed amendments to the Revised Protocol, Staff notes, will be evaluated by the MSP Standing Committee and presented to the State Commissions for ratification of any proposed changes. If concerns and proposed amendments to the Revised Protocol cannot receive consensus with resolution of the concerns, the matter may be presented to the various Commissions. The MSP Standing Committee is not a decision making body. It will focus on fact finding and issue identification with recommendations and results to be made available for state Commissioners to make any necessary decisions. The first course of action for the Standing Committee will be to form workgroups that will further evaluate the impacts of Seasonal classifications and other load growth issues to verify that costs from growing loads are appropriately charged to the growing state(s).

Final ratification of the Revised Protocol is conditioned upon ratification by all states without material change. In the event of change, the Commissions who have previously conditionally adopted the Revised Protocol can initiate proceedings to determine whether the prior ratification will be reaffirmed. Stipulations have been filed in all states (except California) accepting the use of the Revised Protocol as the allocation methodology for accounting purposes and for the results of operations.

Stipulation Analysis

The Stipulation negotiated and signed by PacifiCorp, Commission Staff, Monsanto and AARP recommends adoption of the Revised Protocol in Idaho. The Stipulation also addresses concerns specific to Idaho and establishes rate mitigation measures to protect Idaho customers from drastic rate impacts from the implementation of the Revised Protocol.

The Stipulation supports use of the Revised Protocol in the calculation of revenue requirement in all future PacifiCorp rate filings. To mitigate the rate impacts, the parties have

agreed to support implementation of the Revised Protocol now with a cap of 1.67% to be applied to revenue requirement calculations for filings through March 31, 2009. The rate mitigation cap is calculated as the lesser of PacifiCorp's Idaho revenue requirement calculated under the Rolled-In allocation method multiplied by 101.67% or the Idaho revenue requirement resulting from the Revised Protocol allocation methodology. Absent the cap, rate increases could be greater in various years where Revised Protocol has more costs allocated to Idaho than under the Rolled-In or Modified Accord allocation methods. The cap level of 1.67% allows Idaho to adopt the Revised Protocol, reflect the impact in the next rate case at 1.67% above Rolled-In and see no further percentage increases due to the change in allocation methodology.

Reporting requirements have been established to allow Idaho parties to evaluate the ongoing reasonableness of the Revised Protocol allocation methodology. For 10 years following the Idaho Commission's ratification of the Revised Protocol: a) the Company's general rate case filings with the Idaho Commission shall include calculations of the Company's Idaho revenue requirement under both the Revised Protocol and the Rolled-In methods, and b) the Company shall file annual results of operations with the Idaho Commission which shall include calculations of the Company's Idaho allocated results of operations under both the Revised Protocol and the Rolled-In methods. All such submittals shall include and adequately explain all adjustments, assumptions, work papers and spreadsheet models used by the Company in making such calculations. The Company agrees to notify parties to this Stipulation in a timely manner of such submittals and will provide a copy of such submittals to the Stipulation parties upon request.

COMMISSION FINDINGS

The Commission has reviewed the filings of record including the supplemental testimony of PacifiCorp witnesses, the Revised Protocol, the submitted Stipulation and the related comments and recommendations of PacifiCorp and Commission Staff. The Commission continues to find it reasonable to process the Stipulation and Agreement and Joint Motion for Acceptance of Settlement pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

The Revised Protocol is the allocation method proposed to allocate and assign generation, transmission and distribution costs to PacifiCorp's six retail state jurisdictions. PacifiCorp will continue to plan and operate its system on a six-state integrated basis to achieve a

least cost, least risk resource portfolio for its customers. The Revised Protocol does not prejudice issues of prudence, rate spread, rate design or cost recovery. Each state Commission continues to establish fair, just and reasonable rates.

The Commission recognizes the years of work the Revised Protocol represents and thanks the parties to the Stipulation for their effort. The Commission notes that sooner or later a merged company should be treated as one integrated company and not six separate jurisdictional entities. We note of significance that the Company dispatches resources on a company or system-wide basis. This method of resource utilization, we believe, seemingly argues for a Rolled-In approach as to allocation of costs. Recognizing, however, that there are some perceived inequities of this approach on the west side of the Company's system, we find the Revised Protocol methodology to be a reasonable and acceptable methodology. Our continued acceptance of the Revised Protocol for ratemaking purposes, of course, assumes no significant departure from Revised Protocol by other states in their future proceedings.

CONCLUSIONS OF LAW

The Commission has jurisdiction over PacifiCorp dba Utah Power & Light Company, an electric utility, and the issues presented in Case No. PAC-E-02-3 pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER


In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the Revised Protocol Inter-Jurisdictional Cost Allocation methodology for allocation of costs in Idaho rate cases, subject to the terms of the filed Stipulation and Agreement.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

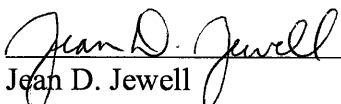
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th
day of February 2005.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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